

Draft Concept of a Strategy for District Heating Reform in Ukraine

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This concept of a strategy for national district heating reform in Ukraine outlines topics that would likely need to be developed in full in the final strategy that is adopted. The strategy would likely cover the following issues:

1. Goals or principles of the reform. These goals are laid out in the Protocol of the first meeting of the Task Force, June 2008. They are presented again in Annex A in English and Ukrainian.
2. Priority directions of reform. A draft of these is currently provided in the draft Charter of the Task Force and in Annex B of this document.
3. Sequencing of the reforms. Annex C provides a description of why it is important to work out the proper sequencing, and some examples of that sequencing.
4. Roles and responsibilities. The Strategy would describe the roles and responsibilities of the major government actors responsible for the reforms. This is particularly important for the government bodies without direct responsibility for the reform, like the Ministry of Labor and Social Protection and the Ministry of Finance. This will ensure that these ministries are aware of what is expected from them and why, and how their roles link with those of other agencies. A list of action items can assign responsibility, but cannot describe the relative role of each government body within a task and between tasks. Annex D provides examples of such roles and responsibilities for select institutions.
5. Actions and time frame. This would be a table describing the necessary reform documents and other actions that will need to be prepared, who will be responsible, and what the time frame is. Regarding timing, it might include a column on both when work on a particular document is planned to begin, and when final preparation or approval is expected. This can help in preparing the sequencing and coordinating between actions. Annex E includes a template for such a table.
6. Brief summary of issues of special concern and options for handling them. This section might outline a limited number of issues where coordination is particularly important. For example, how will tariff reform be coordinated with reform of the social safety net? Other potential topics are how heat reforms will be coordinated with local governments, and how coordination with the donor community can best facilitate the reforms within Ukraine.

Annex A. Fundamental Principles of the Heat Sector Reforms (as described in Task Force Protocol No. 1)

Unofficial English Translation

1. Access of all levels of the population to heat services meeting state standards.
2. Provision of transparency and independence in the state regulation of the residential-communal services sector, protection of consumers' rights, and providing society with a stakeholder role in the process.
3. Provision of efficient use of human, monetary and material resources by producers and consumers of communal services.
4. Responsibility of the state (management, regulation, stimulation and technical support) and responsibility of local governments (planning the development of communal infrastructure, efficient use of territorial property) for economically effective modes regarding the functioning of heat enterprises.
5. Provision of directed subsidies to specific categories of citizens to compensate their expenditures on housing and communal services.
6. Creation of a level playing field for all organizations working in the field of heat supply.
7. Technical rehabilitation of the sector based on broad involvement of domestic and foreign scientific-technical advancements, and implementation of eco-friendly technologies.
8. Establishment of principles for renovating (replacing) the main assets of the district heating industry, and for setting transparent, non-discriminatory conditions for satisfying needs regarding construction of new capacity and heat networks.
9. Development of partnership between executive bodies of government, local governments and the private sector in the areas of heat supply, investment support and development of communal heating.
10. Establishment of principles for reforming the forms of ownership and resolving issues regarding management of share packages of state and communal natural heat monopolies.
11. Openness, citizen control, transparency and participation of citizens in the formulation of policy on the development of the heat sector, and executive and local government information for the public regarding government responsibilities with respect to the fundamental principles and tasks of state policy in this area.

Original Ukrainian version of the Fundamental Principles

- доступність для всіх верств населення послуг з теплозабезпечення, що відповідають вимогам державних стандартів;
- забезпечення прозорості та незалежності державного регулювання у сфері житлово-комунальних послуг, захисту прав споживачів та зворотного зв'язку із суспільством;
- забезпечення ефективного використання людських, грошових та матеріальних ресурсів виробниками/виконавцями та споживачами комунальних послуг;
- відповідальність держави (управління, регулювання, стимулювання та технічна підтримка) та органів місцевого самоврядування (планування розвитку комунальної інфраструктури, ефективне використання майна територіальної громади) за ефективність економічної моделі функціонування теплового господарства;
- запровадження адресних субсидій окремим категоріям громадян для компенсації їх витрат на оплату житла та комунальних послуг;
- створення рівних умов для всіх суб'єктів господарювання, що здійснюють діяльність у сфері теплопостачання;
- технічне переоснащення галузі на основі широкого застосування вітчизняних і зарубіжних науково-технічних досягнень, впровадження екологічно чистих технологій;
- визначення принципів відновлення (заміщення) основних фондів теплоенергетики, а також прозорих та недискримінаційних умов надання дозволів на будівництво нових потужностей та теплових мереж;
- розвиток партнерства між органами виконавчої влади, місцевого самоврядування та приватним сектором у сфері теплозабезпечення, підтримка інвестицій у розвиток комунальної теплоенергетики;
- визначення принципів реформування форм власності та регламентація питань, пов'язаних з управлінням державними та комунальними пакетами акцій суб'єктів природних монополій у сфері теплопостачання;
- гласність, громадський контроль, прозорість та участь громадян у формуванні політики розвитку сфери теплопостачання, інформування населення органами виконавчої влади та органами місцевого самоврядування відповідно до їх повноважень щодо основних принципів та завдань державної політики у цій сфері.

Annex B. Priority Directions of Reform

An over-arching issue is the role and responsibilities at the national, regional, and local levels for each of these topics. This is important for the development and implementation of a rational policy/program.

Tariffs and Metering

- Improve the legal and regulatory base in the sector through development of a regulatory methodology, regulatory authority, and an independent national tariff regulator to ensure the financial stability of the district heating sector.
- Strengthen collection systems to ensure good payment discipline.
- Develop incentive-type tariff regulations to encourage improved efficiency and service.
- Develop feasible plans to switch all residential buildings and other district heating consumers to metered heat consumption.

Social Welfare Support

- Adapt the current system of social welfare support to provide for poor families to ensure adequate living standards when tariffs rise.

Balanced Market

- Ensure that market conditions provide a level playing field for district heating and competing forms of heating so that the economically optimal options prevail.
- Review tariffs for other fuel types to reduce and eliminate implicit subsidies or cross subsidies that can distort the market.

Energy Efficiency in Buildings and District Heating Systems

- Provide for energy use/billing to be based upon metering and actual consumption.
- Provide information and technical support to facilitate the development of energy saving behavior and the implementation of energy saving measures at the housing unit level.
- Develop policies that create incentives to reduce district heating losses and improve efficiency in the production, delivery, and use of heat.

Municipal Capacity and Creditworthiness

- Increase the capacity of municipalities to plan and manage the development of heat systems.
- Improve municipal ability to borrow/invest.

Investment and Municipal Creditworthiness

- Improve the credit worthiness through guarantees, diversification, and/or other support mechanisms.
- Enable alternate financial structures and mechanisms for the provision of investment.
- Increase private investment in communal services.

- Mobilize financing and investment to modernize systems and improve energy efficiency.

Other

- Enhance data systems to provide a better understanding of district heating demand, demand forecasting, and energy flows.
- Ensure that current policies effectively promote combined heat and power.
- Assess forms of ownership that can most effectively achieve the government's goals for the development of the district heating sector.

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Annex C. Reform Sequencing

Proper sequencing of reforms is very important. For example, if tariffs increase rapidly with no mechanism for attracting investment that would improve service quality, customers will likely try to defect from district heating, either by disconnecting, or by not paying their bills. Failure to link tariff increases with reforms of the social safety net (and clear communication of these links to the public) could also lead to a public outcry against necessary reforms. Because disconnections can be so destructive to a system, it is likely worth considering a temporary ban on disconnections for the initial 3-5 years of reform.

Some of the first steps that are critical in reforms include creating an independent regulator, providing a social support net for the poor, eliminating subsidies, facilitating investment through private sector involvement in management, insisting on good payment discipline and installing meters.

Prioritizing the reforms and planning their sequence is important both because of the impact that incomplete reforms can have, and because of the magnitude of the task. Some issues which may at first appear to be priorities (like providing technical support to cities on their technology options), may seem like long-term issues upon careful comparison with other priorities.

Annex D. Examples of Roles and Responsibilities

The sample descriptions below are not meant to be all-inclusive lists of every action the responsible party must undertake regarding the reforms. Rather, they are meant to highlight the main thrust of the work and the necessary coordination with other parties. Such descriptions could ultimately be elaborated for all the major government bodies with significant responsibilities in the district heating reform process, including the Cabinet of Ministers, the Ministry of Finance, the Ministry of Economy, the Ministry of Regional Development and Construction, the Ministry of Fuel and Energy, the Ministry of Justice, the National Electricity Regulatory Commission, the Anti-monopoly Committee, the National Agency for Efficient Use of Energy Resources (NAER) and the State Agency for Investments and Innovations.

Ministry of Residential and Communal Services will play a fundamental role in the formation of policies related to district heating and housing. It will house the Secretariat to the Task Force. It will draft documents and decrees relating to heat tariff regulation, licensing of district heating enterprises, metering, leasing of district heating enterprises, management of housing and improving energy efficiency in residential buildings in district heating networks. It will share and coordinate these drafts with other relevant government organs and external groups through the Task Force. It will also participate in the preparation of plans and documents related to budget financing in the sector, reform of heat and housing subsidies, and energy projections linked to the district heating and housing sectors. It will work to create an independent heat regulator from one of its departments. It will ensure that district heating reforms are adequately coordinated with social welfare reforms. It will coordinate reform efforts with the National Electricity Regulatory Commission to ensure that district heating enterprises do not face anti-competitive pressure from underpriced or subsidized alternative forms of energy (such as natural gas or electricity).

Ministry of Labor and Social Protection will focus on aspects of the reform relating to social support and the poorest citizens of Ukraine. This will likely include careful examination of social welfare reform in order to deal with the impact of the significant increase in heat tariffs on the poorest citizens. In addition, it will include reform of the formulas or approach to providing subsidies, as Ukraine moves away from subsidies paid through district heating and communal services organizations toward direct welfare payments to the neediest. It will coordinate public relations on the reform of social welfare, as relevant, with the Cabinet of Ministers, the Ministry of Residential and Communal Services and other government bodies to ensure that Ukrainian citizens understand how their needs are being addressed even as heat tariffs rise. It will work to facilitate energy efficiency investments in the poorest households, which can reduce long-term budget welfare support and help citizens afford their homes.

Annex E. Tabular Template for the Action Plan

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